



# Statement of the American Farm Bureau Federation

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**Statement to the Hearing before the Senate Committee on Agriculture:**

**Perspectives on U.S. Agricultural Trade**

**September 13, 2018**

**Submitted by:**

**The American Farm Bureau Federation**

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The American Farm Bureau Federation, the nation's largest general farm organization representing farmers and ranchers in all 50 states and Puerto Rico, believes that expanding international trade opportunities is crucial to the well-being of America's farmers and ranchers.

U.S. agriculture exported over \$140 billion world-wide in 2017. Over 25 percent of overall U.S. agricultural production goes to international markets, with many sectors primarily dependent upon exports.

The imposition by the U.S. of tariffs on China, Canada, Mexico, the European Union and several other countries has resulted in retaliation by these countries against U.S. agricultural imports. The impacts of the loss of these export markets is being felt directly by farmers and ranchers. For the growth and renewed prosperity of agriculture, in the face of five years of declining farm income, current trading relationships must be preserved and new opportunities for agricultural trade must be secured.

### U.S. Agriculture and China

The U.S. exported over \$19.6 billion in agricultural products to China in 2017, ranking it as the #2 export market for U.S. farmers and ranchers. Since 2000, the Chinese market has increased from 2 percent to 16 percent of the value of our agricultural exports. This happened during a time when agricultural exports to the world increased from \$51 billion annually to over \$140 billion annually. Between 2014 and 2016, USDA reports that on average, China accounted for more than 16 percent of U.S. agricultural exports.

The Chinese market has become especially critical for U.S. soybean producers as \$12.4 billion of the \$21.6 billion (nearly 60 percent) of soybean exports in 2017 went to China.

With the imposition by China of retaliation against U.S. agricultural exports, we know that any effort to impose additional tariffs on Chinese imports will result in additional retaliatory measures. Already, more than 90 percent of U.S. agricultural exports to China are subject to additional retaliatory tariffs. While the ability to add new products to the list is limited, we expect China to continue to increase the tariff burden on agricultural products, expanding the impact we have already experienced. The impact on American farmers and ranchers, and associated businesses in processing, transportation, finance and retailing must be considered when pursuing trade actions.

### Steel and Aluminum Tariffs and Retaliation

Under Section 232 (National Security) of the Trade Expansion Act of 1962, the Commerce Department recommended to the President that a combination of quotas/tariffs be imposed on steel and aluminum imports.

The President, on March 2, announced the imposition of tariffs of 25 percent for steel and 10 percent for aluminum, to go into effect on March 23. Increased tariffs have resulted in affected countries imposing retaliatory tariffs against U.S. agricultural exports.

On April 2, 2018, China began imposing 25 percent tariffs on U.S. pork products and 15 percent tariffs on tree nuts (shelled and in-shell) including almonds, walnuts and pecans; fruit (fresh and dried) including apples, cherries, grapes, oranges and lemons; wine; ginseng; denatured ethanol and other products. This action is in response to increased U.S. steel and aluminum tariffs on China that went into effect on March 23, 2018. These tariffs by China are impacting approximately \$2 billion of U.S. food and agricultural exports.

On May 31, Canada, Mexico and the European Union, which had been temporarily exempted, had the tariffs imposed on them. The EU imposed their retaliatory tariffs on June 22, Canada on July 1, and Mexico implemented their full retaliatory tariffs on July 5.

Mexico's retaliation list for 20 percent tariffs includes pork, cheeses, apples and whiskey. The list from the European Union, at 25 percent, includes rice, cranberries, peanut butter, kidney beans and whiskey. The list from Canada, at 25 percent, includes pizza, yogurt, chocolate, orange juice and whiskey.

### Section 301 Tariffs

The proposal to impose tariffs on various Chinese imported products is brought under Section 301 of the Trade Act of 1974. The imposition of tariffs on \$50 billion of imports from China, in two parts, on July 6, 2018, and August 23, 2018, brought immediate retaliatory action by China with a 25 percent tariff imposed on a variety of U.S. agricultural exports. Farmers and ranchers have already been directly impacted by these tariffs on soybeans, sorghum, cotton, corn, wheat, beef, pork, tobacco, orange juice and cranberries.

President Trump announced on March 23, 2018, that the U.S. would begin the process to impose tariffs on Chinese exports due to concerns over Chinese practices that impact U.S. intellectual property. On April 3, 2018, the Office of the U.S. Trade Representative (USTR) released a list of \$50 billion of Chinese electronics, machinery and aerospace products for a recommended 25 percent import tariff.

On July 17, 2018, a process to impose a 10 percent tariff on a further \$200 billion of imports from China was initiated. On August 1, 2018, this tariff proposal was increased to a 25 percent duty.

In response to the modified U.S. recommendation of tariffs, China has released a list of products for a potential 5, 10, 20 or 25 percent retaliatory tariffs. These include lamb, honey, hides, skins and various other food and agricultural products. These retaliatory tariffs will be in addition to the existing tariffs imposed by China, in response to the steel and aluminum tariffs and the \$50 billion in tariffs due to the previous Section 301 actions. U.S. exports of soybeans, cotton, beef, pork, corn, wheat, sorghum, tobacco, orange juice, cranberries, tree nuts, fruits, wine and other products are subject to and impacted by the current retaliatory tariffs.

In response to the potential tariffs on \$200 billion of exports to the U.S., China has released a retaliation list that would take effect should the proposed U.S. tariffs be implemented. Together

with the existing retaliatory tariffs imposed by China, these proposed tariffs would impact more than 90 percent of U.S. agricultural and food products from the United States, nearly \$20 billion based on 2017 export values. In USDA's most recent, August 29, 2018, Outlook for U.S. Agricultural Trade, it is forecasted that due to the retaliatory tariffs already in place, fiscal year 2019 U.S. agricultural exports to China will drop to \$12 billion, \$7 billion below the revised fiscal 2018 estimate. In fiscal year 2019, China is expected to be the fifth largest market for U.S. agricultural products, down from being the second largest market this year.

When the original Section 301 proposal was released on April 3, 2018, and China released its retaliation product list, the market reaction to China's proposed 25 percent tariffs was swift. The day the list was revealed, soybean futures fell as much as 5 percent, corn futures fell nearly 4 percent and wheat futures fell 1.3 percent. The futures markets recovered once it was reiterated that the tariffs were proposed, not a given.

However, the immediate market reaction serves as an important test for what we should expect in case of tariff application.

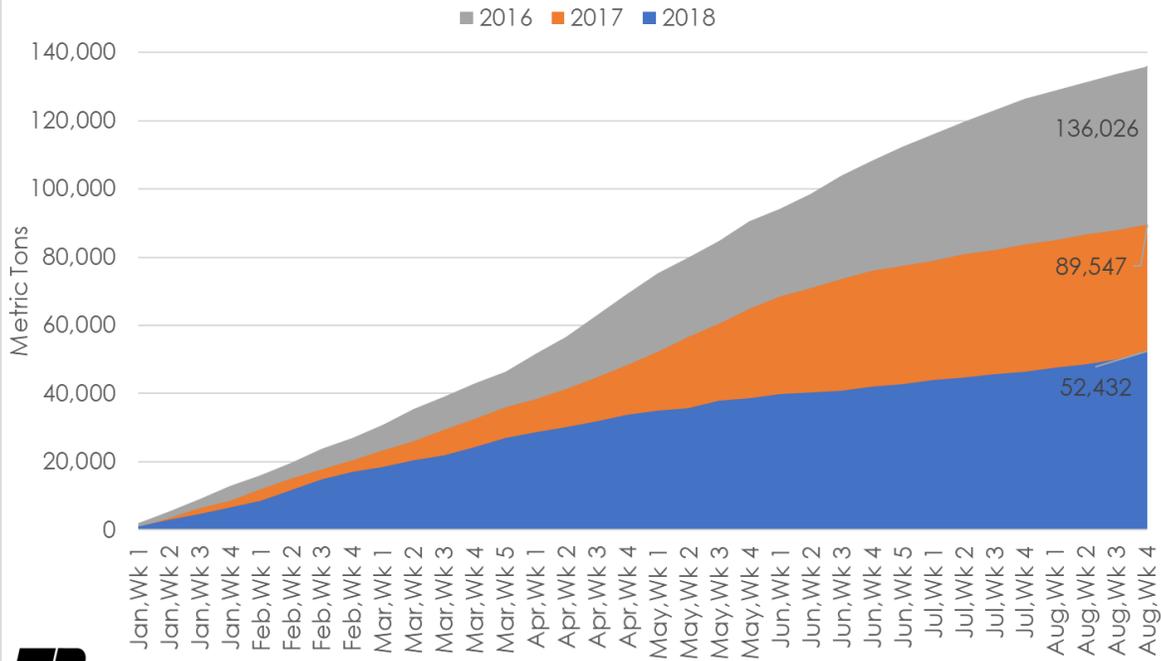
The consensus in the agricultural community is that a significant tariff of 25 percent on soybeans would reduce U.S. farm prices by 4-5 percent in the short term. The latest (August) USDA projected season-average soybean price is forecast at \$7.65 to \$10.15. This is down from a projected season-average price of \$8.00 to \$10.50 per bushel, just a month earlier in the July estimate. In one month, the estimated price declined 3-4 percent. An additional 4-5 percent reduction in that price would lower the price of a bushel of soybeans by \$0.306 to \$0.507. For a farmer harvesting 1,000 acres of soybeans this would mean a reduction of \$15,800-\$26,200 in income in the blink of an eye.

A tariff of 25 percent on U.S. corn is expected to have a slightly smaller, yet still negative impact of 2-2.5 percent on farm prices. The latest (August) USDA projected season-average corn price is forecast at \$3.10 to \$4.10 per bushel. This is down from a projected season-average corn price of \$3.30 to \$4.30 per bushel, just a month earlier in the July estimate. In one month, the estimated price declined 5-6 percent. An additional 2-2.5 percent reduction in that price would lower the price of a bushel of corn by \$0.062 to \$0.1025. For a farmer harvesting 1,000 acres of corn this would mean a reduction of \$11,000-\$18,300 in income.

Soybeans and corn are just two examples of the price and production reductions we would expect throughout U.S. agriculture. Given the significance of the Chinese market, reductions in farm prices and production would be expected for each product on China's retaliation list.

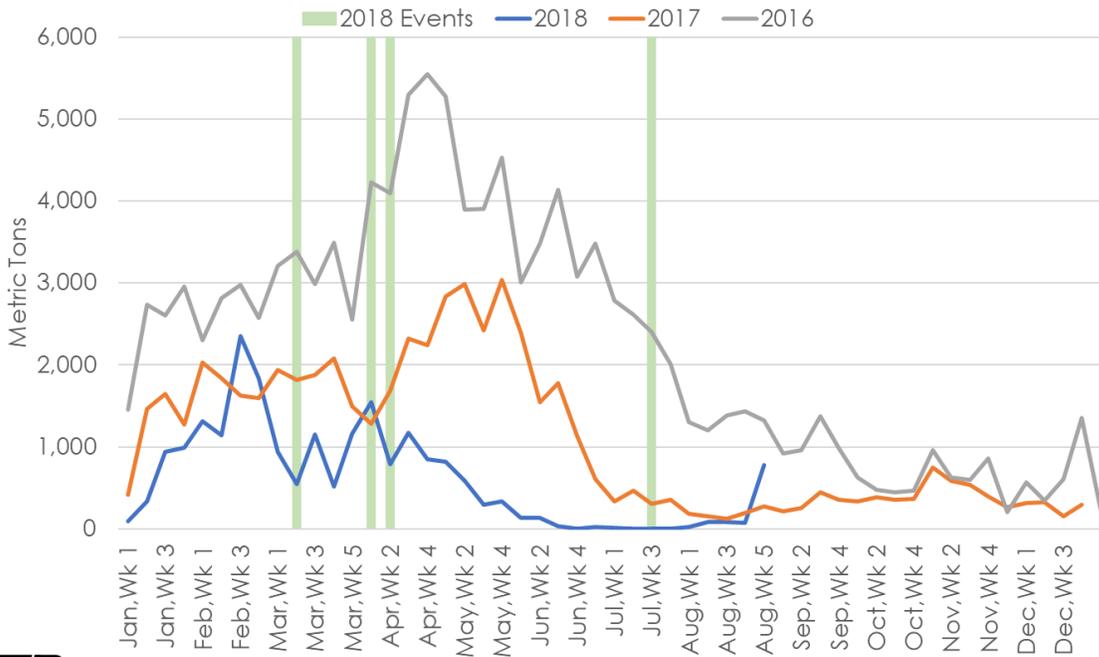
U.S. pork exports to China are another ready example. To date, U.S. pork exports to China by volume are 58 percent lower than at this point in 2017 and 80 percent lower than this point in 2016. Data does not suggest that U.S. pork is finding itself into either Hong Kong or Vietnam either. Combined exports to the three countries are down 41 percent and 61 percent compared to the same period in 2017 and 2016 respectively, as evidenced in Figure 1. Figure 2 suggests that U.S. tariff actions have had a significant impact on lower export volumes to China.

**Figure 1. Combined U.S. Weekly Pork Exports to China, Hong Kong and Vietnam**



Source: USDA FAS

**Figure 2. U.S. Weekly Exports of Fresh, Chilled, or Frozen Muscle Cuts of Pork to China**



Source: USDA FAS

## NAFTA

A U.S.- Mexico Trade Agreement was announced by President Trump on August 27, 2018. Agricultural tariffs between the U.S. and Mexico will remain at zero. The chapter on Sanitary/Phytosanitary Standards (SPS) has been completed and provisions regarding biotechnology and geographic indications are included.

On August 31, 2018, the Administration notified Congress of its intent to sign a trade agreement with Mexico, and potentially Canada, by November 30, 2018. The final text of the agreement is due to Congress by September 30, 2018. Canada now has until September 30 to join the agreement.

Canada has now rejoined the NAFTA discussions. Issues with Canada include the Class 7 dairy pricing issue, supply management programs for dairy and poultry, autos and dispute settlement.

Since 1993, U.S. agricultural exports to Canada and Mexico have increased from \$8.9 billion to \$39 billion in 2017. We want NAFTA to continue as a trilateral agreement including the U.S., Canada and Mexico.

## Japan

Improved agricultural trade with Japan was a key feature of the Trans Pacific Partnership (TPP). Farm Bureau urges the Administration to enter into a trade agreement with Japan, either on a bilateral basis or by entering into discussions to join the renamed TPP, the Comprehensive and Progressive Trans Pacific Partnership (CPTPP). The remaining 11 nations (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) from the original TPP are in the process of ratifying the CPTPP, which is essentially the same as the original TPP agreement. Japan has been actively negotiating and signing trade agreements with many of our biggest competitors, which will significantly impact our ability to be competitive in this important market in the very near term.

## European Union

The US and the EU have differences as to what is to be included in any future trade talks. The EU wants a narrowly focused discussion without agriculture. The Administration maintains that there will be no talks without agriculture. Farm Bureau strongly supports including agriculture, given the long-standing issues regarding tariffs, trade in meat products, biotechnology and geographic indications with the EU.

## Conclusion

Farm Bureau urges our trade officials to engage in discussions with our trade partners to resolve trade concerns before resorting to tariffs. Tariffs targeting our largest agricultural export markets have resulted in retaliation against U.S. farmers, ranchers and agricultural and food businesses across the country.

At this time of particular stress in the agricultural economy, expanding market opportunities for farmers and ranchers must be a priority for our trade efforts.